

MODOC COUNTY ASSESSMENT PRACTICES SURVEY

AUGUST 2003

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No. 2003/054

August 13, 2003

TO COUNTY ASSESSORS:

MODOC COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the *Modoc County Assessment Practices Survey Report* is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Josephine Johnson, Modoc County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, the State Legislature, the Modoc County Board of Supervisors, and the Modoc County Grand Jury.

Fieldwork for this survey was performed by the BOE's County Property Tax Division between March and August 2002. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Ms. Johnson and her staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Modoc County Assessor's Office.

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increased the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that indicates the manner in which she has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Modoc County Board of Supervisors and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Josephine Johnson, Modoc County Assessor, elected to file her initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60¹ requires the BOE to certify whether the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Modoc County Assessor's Office included reviews of the assessor's records, interviews with the assessor and her staff, and contact with other public agencies in Modoc County with information relevant to the property tax assessment program.

This survey also included an assessment sample of the 2001-02 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is zero percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative costs of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This survey report offers recommendations to help the assessor resolve problems we have identified. An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of the assessor's office outside those areas related to assessment.

¹ All statutory references are to the Revenue and Taxation Code, unless otherwise indicated.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the assessor's operations. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our prior survey we made seven recommendations. Of these, the assessor fully implemented five and partially implemented one. One recommendation no longer applies due to a statutory change. The recommendation that the assessor did not fully implement is repeated in this report. The following statements summarize the findings of the current survey:

- Modoc County has elected not to participate in the State-County Property Tax Administration Grant Program.
- At the time of our survey fieldwork, the Modoc County Board of Supervisors had only recently approved participation in the California Land Conservation Act (CLCA) and had no property under contract.
- Administrative elements of the assessor's office, including appraisal staff certification, assessment appeals, disaster relief, roll change procedures, and racehorse tax administration conform to statutory requirements.
- The assessor's programs for changes in ownership, new construction, historical properties, water company properties, manufactured homes, leasehold improvements, mandatory audits, business machinery and equipment, computers, leased equipment, and aircraft are consistent with the requirements of property tax law.
- The assessor exempts low-value property without authorization.
- The assessor determines market value for decline-in-value properties without supporting documentation.
- The assessor does not request information on compatible, nonexclusive uses of Timberland Production Zone properties.
- The assessor does not review all private uses of the county fairground to discover taxable possessory interests. In addition, the assessor did not recognize the expiration of the term of possession of a possessory interest as a change in ownership and did not issue supplemental assessments for those changes in ownership.
- The assessor accepts incomplete business property statements.
- The assessor does not include sales tax as a component of a vessel's value.

Despite the problems noted above, we found that most properties and property types are assessed correctly. The Modoc County assessment roll meets the requirements for assessment quality established by section 75.60. Our sampling of the 2001-02 assessment roll indicated an

assessment ratio of 96.72 percent, and the sum of the absolute differences from the required assessment level was 4.54 percent. Accordingly, the BOE certifies that Modoc County is eligible to continue receiving reimbursement of the costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1:	Assess all business property unless statutorily exempt.....	12
RECOMMENDATION 2:	Annually enroll the lower of the factored base year value or the current market value of real property as required by section 51(a).	15
RECOMMENDATION 3:	Send annual questionnaires to owners of TPZ-zoned land, requesting information on compatible, nonexclusive uses.....	17
RECOMMENDATION 4:	Review all private uses of fairground property for possible taxable possessory interests.....	18
RECOMMENDATION 5:	Revalue taxable possessory interests at the end of the anticipated terms of possession, as required by section 61.....	18
RECOMMENDATION 6:	Issue supplemental assessments for changes in ownership of taxable possessory interests.....	18
RECOMMENDATION 7:	Accept only completed business property statements.....	23
RECOMMENDATION 8:	Add sales tax as a component of market value when appraising vessels.....	26

RESULTS OF 1998 SURVEY

Roll Corrections

We recommended that the assessor include the notation mandated by section 533 when enrolling escape assessments and that she discontinue aggregating multiple years of escape assessments into one escape assessment in the current year. The assessor now includes the required caption and correctly enrolls escape assessments.

Improvement Bond Value

We recommended that the assessor include the cash equivalent value of outstanding improvement bonds in the assessed value of real property. Section 110 was revised to establish a rebuttable presumption that the value of improvements financed by bonded indebtedness is already reflected in the total consideration paid for a property, exclusive of the amount of that indebtedness. Thus, our recommendation no longer applies.

Possessory Interests

We recommended that the assessor enroll all taxable possessory interests, especially those uses of the Modoc County Fairgrounds. The assessor has not implemented this recommendation. We repeat our recommendation.

Taxable Government-Owned Property

We recommended that the assessor assess taxable government-owned land at the lowest of current market value, restricted value, or factored base year value. We found that the assessor now enrolls the lowest of these value indicators.

Mutual Water Companies

We recommended that the assessor develop procedures to eliminate the possibility of mutual water company properties escaping assessment. We found that the assessor has instituted discovery methods resulting in the new assessment of a water company and routinely utilizes Form BOE-540-S, *Mutual or Private Water Company Property Statement*, to discover new construction.

Historical Properties

We recommended that the assessor enroll the lowest of the restricted value, the factored base year value, or the current market value. We found that historical properties are now properly assessed.

Manufactured Homes

We recommended that the assessor properly classify manufactured homes as personal property and assess manufactured home accessories in rental parks. The assessor fully implemented this recommendation.

OVERVIEW OF MODOC COUNTY

Located in the northeast corner of California, Modoc County shares common borders with the state of Oregon to the north and the state of Nevada on the east. Siskiyou County borders Modoc County on the west and Shasta and Lassen Counties on the south. The county is about 300 miles northeast of Sacramento. Alturas is the only incorporated city in the county and is the county seat. Modoc County's population is approximately 9,800, of whom approximately 3,000 reside in Alturas. The county encompasses about 2,777,600 acres or 4,340 square miles.

The county has 12 unincorporated communities. Government is one of the county's largest employers owing to the fact that approximately 66 percent of the county's 2.8 million acres are publicly owned. The county has 662,900 acres in farm production generating over \$56 million annually in farm income. Principal among these is \$29 million in field crops and \$12 million in livestock production. Modoc County is a general law county that was created by the Legislature in 1874 from the eastern section of Siskiyou County.²

² California State Association of Counties, Counties Close-Up, www.csac.counties.org

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the following areas: budget and workload, assessment forms, appraiser certification, assessment appeals preparation and presentation, disaster relief procedures, assessment roll change procedures, exemptions (including the low-value property exemption), and the racehorse tax.

Budget and Workload

The assessor produced an assessment roll for 2001-02 totaling \$598,326,845, net of all exemptions (except the homeowners' exemption) on a gross budget of \$399,432. This figure does not include property assessed on the supplemental roll or BOE-assessed utilities. At the present time, there are four certified appraisers including the assessor. The following table details the assessor's assessment roll over the previous five fiscal years (net of all but the Homeowners' Exemption).

FISCAL YEAR	UNSECURED	UNITS	SECURED	UNITS	TOTAL	UNITS
2001-02	\$19,379,323	1,004	\$578,947,522	27,410	\$598,326,845	28,414
2000-01	\$22,120,980	1,032	\$556,646,026	27,409	\$578,767,006	28,441
1999-00	\$23,075,179	1,034	\$535,799,700	27,372	\$558,874,879	28,406
1998-99	\$21,029,770	1,075	\$520,521,077	27,344	\$541,550,847	28,419
1997-98	\$20,881,176	1,059	\$503,332,898	27,342	\$524,214,074	28,401

Assessment Forms

Section 15606(d) of the Government Code specifically authorizes the BOE to prescribe and enforce the use of all forms for property tax assessment. The BOE annually publishes Assessors' Handbook Section 222, *Standard Form List*, that provides a listing of BOE-prescribed and recommended forms. Generally, the assessor has the option to make minor format changes to the form, e.g., size or color, but cannot add to, change, or delete the specific language on the form. Any rearranged forms must be approved by the BOE.

Annually, the BOE mails three checklists of BOE-prescribed forms to all assessors. The three checklists include exemption claim forms, property statements, and miscellaneous forms. The assessor must indicate on the checklists which forms he/she will use, will not use, or will rearrange and send for approval, and return the checklists to the BOE by the designated date. Final prints of all forms used by the assessor are to be submitted to the BOE by a subsequent statutory deadline.

A review of the forms used by the Modoc County Assessor for the year 2001 revealed the following:

- Of the 71 BOE-prescribed forms listed on the checklists, the assessor indicated that she used 46 of them.
- All 46 forms used were prototypes; none were rearranged.
- The assessor submitted the three checklists timely.
- The assessor submitted the final print of all forms used timely.

We found no problems with the assessment forms used by the assessor.

Appraiser Certification

Section 670 requires that all persons performing the duties of an appraiser for property tax purposes hold a valid certificate issued by the BOE. We found that all appraisers, including the assessor, possess the required certificate.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 contain the statutory references that govern county assessment appeal boards in the appeals function. Section 15606(c) of Government Code directs the BOE to prescribe rules and regulations to govern local boards of equalization. The BOE has adopted rules 301 through 326 to regulate assessment appeals.³

The Modoc County Board of Supervisors sits as the local board of equalization. At the time of our survey, Modoc had received three timely filed appeals for the current year. Assessment appeals are a very small part of the assessor's overall workload. The following table shows a breakdown of appeals for the current and past three years.

³ All rule references are to the Property Tax Rules, Title 18, Public Revenues, California Code of Regulations, unless otherwise indicated.

YEAR	CARRIED OVER	APPEALS FILED	WITHDRAWN	STIP	DENIED FOR LACK OF APPEARANCE	PENDING
2001-02	3	3	0	0	0	6
2000-01	0	3	0	0	0	3
1999-00	0	5	4	1	0	0
1998-99	4	5	2	1	6	0

We reviewed six appeals and found them to be well documented, complete, and the values to be reasonable. The assessor's assessment appeals program appears to be in compliance with all applicable rules, statutes, and regulatory provisions.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed by a misfortune or calamity. The ordinance may apply to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to any misfortune or calamity, or to both.

Effective January 1, 2002, section 170 was significantly revised in several respects:

- The board of supervisors may amend the local ordinance to allow reassessment of property damaged or destroyed within the preceding 12 months.
- The property owner now has 12 months or the period established by local ordinance, whichever is longer, to file a claim for reassessment.
- The damage threshold has been raised to \$10,000.
- The property owner now has six months to file an appeal of a damage-adjusted value.
- The assessor may now notify owners of properties damaged within the preceding 12 months that they may file a claim, and the owner has 60 days to file the application after receipt of the notice.
- The ordinance may provide that where no application is made, the assessor may reduce taxable values of property experiencing a misfortune or calamity up to 12 months after the disaster.⁴

In 1984, the county board of supervisors adopted all of the provisions of section 170 by reference and, therefore, made the statute applicable to Modoc County. The assessor uses various methods of discovering property that has experienced a calamity or disaster, including obtaining fire reports from the Modoc County Fire Department.

⁴ Chapter 407 of the Statutes of 2001.

The assessor generally receives a small number of reports from the fire department each year. If the information on a report meets calamity relief criteria, the assessor sends the taxpayer a calamity package containing letters and applications. On average, the assessor sends two to three such packages a year.

We found that the disaster relief assessments are made correctly and that the assessor has an effective program for assessing affected properties.

Assessment Roll Changes

Sections 616 and 617 require the assessor to complete the local assessment roll on or before July 1 of each year and deliver it to the auditor upon completion. After delivery of the roll to the auditor, the assessor cannot change the assessment roll unless authorized by statute or by the board of supervisors. All roll changes are based on specific statutes, and the assessment roll must contain appropriate statutory references.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed on the July 1 roll, for any reason, or that was underassessed due to an error or omission of the assessee. The assessor is required to enroll any property escaping assessment upon discovery. At least ten days prior to enrollment, however, the taxpayer must be notified of the proposed escape assessment. A correction is any type of authorized change to an existing assessment except for underassessments caused by an error or omission of the assessee.

We found no problems with the assessor's assessment roll change procedures.

Exemptions

Article XIII, section 3(f) of the California Constitution exempts from property taxation buildings, the land on which they are situated, and equipment used exclusively for religious worship. California Constitution, section 4(b) of article XIII, authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes, when owned by non-profit entities. California Constitution article XIII, section 5, provides that the exemption granted under section 3(f), and section 4(b) applies to buildings under construction and land required for their convenient use where the property is intended to be used exclusively for religious worship are eligible for exemption.

The following table shows the assessor's exemption data for the last five years:

YEAR	WELFARE EXEMPTION	NO.	RELIGIOUS EXEMPTION	NO.	CHURCH EXEMPTION	NO.
2001-02	\$3,851,581	22	\$3,655,114	34	\$11,021	1
2000-01	\$3,019,705	22	\$3,573,864	35	\$12,006	1
1999-00	\$2,466,627	19	\$3,429,833	36	\$11,772	1
1998-99	\$2,497,120	19	\$3,208,103	34	\$11,559	1
1997-98	\$2,782,516	20	\$3,228,694	35	\$11,333	1

Welfare, Religious, and Church Exemptions

We found that the assessor has an effective welfare, religious, and church exemptions program.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value, so low that if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the assessment and collection costs. Section 155.20(b)(1) provides that the county board of supervisors has no authority to exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. The Modoc County Board of Supervisors has not adopted a low-value property exemption.

RECOMMENDATION 1: Assess all business property unless statutorily exempt.

We found that the assessor exempts business property valued at less than \$400. Absent the authorization of a low-value property exemption, the assessor does not have legal authority to exempt such property from taxation.

We recommend that the assessor discontinue this practice of exempting low-value business property assessments and assess all property unless statutorily exempt.

Racehorse Tax

Racehorses domiciled in California have been subject to an annual tax in lieu of ad valorem property tax since 1973. Sections 5701 through 5790 govern the administration of this tax. Specific procedures and forms are prescribed by rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

The assessor annually reviews a list of racehorse owners from the California Horse Racing Board and the local telephone book for racehorses, show horses, and boarding locations to discover taxable property. The assessor has identified one taxpayer subject to the requirements of section 5782 and rule 1045. The racehorse tax return is mailed to the owner, who files the return with the county tax collector.

ASSESSMENT OF REAL PROPERTY

The assessor's real property assessment program includes (1) revaluation of properties that have changed ownership, (2) valuation of assessable new construction, (3) annual review of properties having market values below their factored base year values, and (4) annual review of certain properties subject to special assessment provisions.

Article XIII A of the California Constitution requires most real property to be assessed at the lower of its current market value or factored base year value. The assessed value on the 1975 lien date or the market value following a change in ownership or completion of new construction is referred to as a property's base year value. The base year value is factored each year to reflect inflation as measured by the California Consumer Price Index (CCPI), not to exceed two percent per year. This indexed value is known as the factored base year value.

Change in Ownership

Section 60 defines a change in ownership as the transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest. One of the assessor's main functions is to identify and value real properties that have changed ownership.

Discovery

The Modoc County Recorder's Office is the assessor's main source of information for the discovery of properties experiencing a change in ownership. The recorder enters the data from all recorded documents into a computer system. Since the assessor has full access to this system, all recording data is immediately available to the assessor. The recorder is diligent about enforcing the \$20 fee for failure to file a *Preliminary Change in Ownership Report* (PCOR) at the time of recordation. The result is that only about 40 recorded transfer documents per year do not include a PCOR. A clerk from the recorder's office delivers the PCOR's on a daily basis to the assessor.

Processing Recorded Documents

The assessor processed about 1,400 changes in ownership for the 2000-01 assessment roll. When a transfer document is recorded without a PCOR, the assessor sends Form BOE-502-AH, *Change in Ownership Statement* (COS), to the owner. A COS is also sent when an assessee provides insufficient or incomplete information on the PCOR. The assessor mails approximately 40 COS's each year, and of those only two or three per year are not returned. In all cases where the COS's are not returned, the assessor applies the failure to file penalty provided in section 480.

The assessor's staff reviews each recorded document and forwards those documents indicating a change in ownership to the appraisal section along with the property record and PCOR or COS. The appraiser determines the value of the property and forwards the value to the clerical staff for enrollment.

We reviewed six randomly selected recorded documents from the recorder that represented property transfers and tracked them through the assessor's enrollment system. The transfer of ownership for each of these recorded documents was handled accurately and reflected conformance with statutory provisions.

Legal Entity Ownership Program

Section 64(c) provides that whenever any person or entity obtains control of more than 50 percent ownership interests of a legal entity, any real property owned by the legal entity is deemed to have undergone a change in ownership. Section 64(d) provides for a change in ownership of real property owned by a legal entity under certain conditions.

The Legal Entity Ownership Program (LEOP) of the BOE's Assessment Policy and Standards Division assists assessors in the discovery of legal entities whose real property has undergone a change in ownership under either section 64(c) or 64(d). The LEOP unit periodically transmits a list of such entities to each assessor, indicating the date of each change in control or change in ownership and the affected parcels within that county. In addition, the LEOP unit sends copies of each corresponding *Statement of Change in Control and Ownership of Legal Entities*, which identifies the specific parcel(s) that must be reassessed as of the date of the change in ownership.

In addition to the BOE-provided data, appraisers often must do additional research, including contacting the involved parties to elicit information about the transfer. Other sources of data for transfers of legal entity property may include business property statements and leases.

We found that the assessor correctly processes LEOP notices and effectively identifies changes in ownership resulting from corporate changes in control. In addition, we found that assessments are made correctly and that the assessor has an effective change of ownership program. Consequently we have no recommendations.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from building permits. Other discovery methods include business property statements, aerial photographs, news reports, and field canvassing.

There are three permit-issuing agencies in Modoc County: the Modoc County Building Department, the City of Alturas Building Department, and the Modoc County Environmental Health Department. The assessor receives permits from all three agencies. The table below shows the number of permits received and the number of permits that resulted in assessable new construction for the last five years.

ROLL YEAR	COUNTY	CITY	TOTAL RECEIVED	NUMBER ASSESSED AS NEW CONSTRUCTION
2001-02	268	142	410	178
2000-01	259	186	445	202
1999-00	233	175	408	178
1998-99	243	171	414	167
1997-98	212	155	367	160

We found the new construction program to be well administrated; controls are in place to ensure quality and consistency. The property records were well documented. Allocations between structure and land improvements were correct and values appeared to be reasonable. Consequently, we have no recommendations.

Declines in Value

Section 51(a) requires the assessor to enroll the lower of either a property's factored base year value or its current market value. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's current market value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value.

For the 2000-01 roll year, the assessor monitored approximately 8,000 parcels where the current market value was enrolled as the taxable value. This represents a decrease of about 20 percent from the 10,000 parcels for the 1996-97 roll year.

RECOMMENDATION 2: Annually enroll the lower of the factored base year value or the current market value of real property as required by section 51(a).

We found several irregularities in the assessor's decline-in-value program. In some cases, when the assessor believes that the current market value is lower than the factored base year value, she suspends the annual adjustment for inflation without documenting the current market value. When she believes that the market values for these properties have risen, she resumes the annual inflation adjustment from the existing suspended value without documenting the basis for the change.

In addition, we found many properties in decline-in-value status, even though similar adjacent properties had sold recently for much higher prices. One of those areas was the California Pines subdivision. The assessor's policy was to ensure that there was an increase in land value in the subdivision unit before adjusting individual assessment. However, we found sufficient market data to support adjusting certain decline-in-value assessments.

Section 51(a) requires the assessor to annually enroll the lower of the factored base year value or the current market value. In developing the market value, the assessor must review market

evidence and document the basis for the current market value. Suspending and restoring the annual inflation factor does not meet these requirements.

We recommend that the assessor annually enroll the lower of factored base year value or current market value as required by section 51(a).

Supplemental Assessments

Sections 75, et seq., require the assessor to appraise property at its full cash value on the date property changes ownership or upon the completion of new construction. The increase or decrease in assessed value is reflected in a supplemental assessment. The taxes for the supplemental assessment cover the portion of the fiscal year remaining after the date of change in ownership or completion of new construction. For changes in ownership or completed new construction occurring between the lien date and May 31, two supplemental tax bills are issued. The first covers the portion of the current fiscal year remaining after the assessable event; the second covers the ensuing fiscal year in its entirety.

We reviewed a number of properties that had undergone new construction or a change in ownership during the 2001-02 assessment year. The assessor properly issued two supplemental bills for events occurring on or after the lien date and on or before May 31. The assessor enrolled all supplemental assessments, including amounts less than \$20. The assessor calculated the supplemental assessments correctly and issued supplemental notices in a timely manner. However, we noted problems in the assessor's supplemental assessment program as it addresses taxable possessory interests. Please refer to that topic for further discussion.

Taxable Government-Owned Property

Article XIII, section 11 of the California Constitution provides that property owned by a local government is exempt from taxation, except for land and improvements that are located outside its boundaries and that were taxable at the time of acquisition. Taxable government-owned property is commonly referred to as *Section 11* property.

The taxable value of *Section 11* land must be the lowest of (1) the current market value, (2) the factored base year value, or (3) the restricted value determined in accordance with section 11.

Improvements on *Section 11* land that were taxable when acquired by the government agency must be assessed at the lowest of (1) the current market value, (2) the factored base year value, or (3) in the case of improvements that replaced previously taxable improvements, the highest value ever used for taxation for the replaced improvements. Improvements newly constructed subsequent to acquisition are exempt.

For fiscal year 2001-02, the assessor enrolled six government-owned properties with a total assessed value of \$167,716. At present, one staff member is responsible for identifying and valuing these properties. We found no problems with this program.

Timberland Production Zone Property

Land zoned as a Timberland Production Zone (TPZ) is subject to specific assessment procedures that exclude the value of the standing timber. As of the 2001 lien date, there were 522 parcels zoned TPZ in Modoc County, totaling 197,023 acres. The total assessed value of these TPZ lands is \$13,514,620.

RECOMMENDATION 3: Send annual questionnaires to owners of TPZ-zoned land, requesting information on compatible, nonexclusive uses.

Although the assessor attempts to account for any additional value that may be present for grazing on TPZ land by adding \$1 per acre to the indicated TPZ value, she makes no attempt to obtain information regarding actual grazing leases or to systematically canvass TPZ landowners to discover other compatible, nonexclusive uses. We found a number of TPZ properties with grazing leases with an indicated value of greater than \$1 per acre.

Section 435(a) requires the assessor to value timberland according to the site value schedules expressed in section 434.5, plus the value of any compatible, nonexclusive uses of land. These uses may include grazing, hunting, camping, mining, and others. The value of these compatible uses must be determined annually and added to the site class values of the timberland.

Once land is zoned TPZ and enrolled as such by the assessor, there is usually very little contact between the assessor and owners of TPZ lands. This creates a discovery problem if there is income to the property from compatible use. The assessor could easily remedy this situation by sending out a questionnaire requesting information on compatible use to the participating TPZ landowners. The assessment of these additional compatible uses will enable the assessor to be in full compliance with section 435(a).

We recommend the assessor send an annual questionnaire to all TPZ landowners to discover all nonexclusive compatible uses.

Taxable Possessory Interests

A taxable possessory interest is a private interest in publicly owned real property. For assessment purposes, the term possessory interest includes either the possession, or the right to possession, of real property when a tax-exempt government agency holds the fee title to that property.

The assessor regularly contacts 25 government agencies that own property in Modoc County to discover taxable possessory interests. As a result, there are 211 separate possessory interest assessments on the 2001-02 roll totaling \$3,513,112.

In our prior survey, we recommended that the assessor assess all taxable possessory interests. Specifically, we mentioned various events and vendors that use the Modoc County Fairgrounds. The assessor has not implemented this recommendation.

County Fairgrounds

RECOMMENDATION 4: Review all private uses of fairground property for possible taxable possessory interests.

We found a number of private uses of the fairgrounds that occur outside of the annual county fair, that appear to escape assessment. Our discussion with the fairgrounds management indicated that a number of users of the fairgrounds facilities have ongoing and beneficial use. The repeated use of the fairgrounds facilities by the same person or entity over a subsequent number of years may warrant assessment as a taxable possessory interest.

Failure to assess all qualifying possessory interests results in escaped assessments and lost tax revenue to the county. We again recommend the assessor review all uses of the fairgrounds to discover qualifying possessory interests.

Change in Ownership

RECOMMENDATION 5: Revalue taxable possessory interests at the end of the anticipated terms of possession, as required by section 61.

We found that the assessor failed to reappraise several possessory interests at the end of their anticipated terms of possession, as required by section 61(b)(2). The assessor continues to enroll the original base year value determined at the commencement of the initial change in ownership.

Section 61(b)(2) provides that a renewal or extension during the reasonably anticipated term of possession used by the assessor does not cause a change in ownership until the end of that term. At that time, a new base year value, based on a new reasonably anticipated term of possession, must be established. The assessor's practice is inconsistent with this statute.

We recommend the assessor revalue taxable possessory interests as required by section 61(b)(2).

Supplemental Assessments

RECOMMENDATION 6: Issue supplemental assessments for changes in ownership of taxable possessory interests.

We found that the assessor does not enroll supplemental assessments for changes in ownership of possessory interests. Instead, any value change resulting from such a change in ownership is enrolled on the subsequent section 601 roll.

Section 61(b) provides that the creation, renewal, extension, or assignment of a possessory interest is a change in ownership and as such is subject to supplemental assessment. We recommend the assessor issue supplemental assessments for changes in ownership of possessory interests.

Historical Property

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with a local government restricting the use of that property in exchange for preferential assessment treatment. Section 50280.1 provides that in order for a property to qualify for assessment as a historical property it must, among other requirements, be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method set forth in section 439.2. In this method, a fair or market rent less ordinary and necessary expenses is capitalized at a rate that is not derived from the market but is a summation of the four basic components described in section 439.2:

- An interest component that is determined annually by the BOE;
- A risk component of two percent (or four percent if the property is owner-occupied);
- A component for property taxes; and
- A component for amortization of the improvements.

Modoc County has two historical properties with a total assessed value of \$42,814. Both of these properties are listed on the National Register of Historic Places. The appraisal files for these properties contain copies of the contracts with the local governments, income data, and valuation worksheets.

Leasehold Improvements

Leasehold improvements are real property items that are owned and installed by a lessee on leased real property. Typically, leasehold improvements are found in retail stores or office buildings. Because the owner of the leasehold improvements does not own the real property, discovery of the leasehold improvements requires regular monitoring of commercial, industrial, and other income-producing properties.

The most common sources for the discovery of leasehold improvements are business property statements and building permits. Section B of Form BOE-571-L, *Business Property Statement*, contains information regarding real estate-related assets owned by the occupants at the locations of business enterprises.

We found that the assessor is conscientious in discovering and processing leasehold improvements. We have no recommendations in this area.

Water Company Property

Water company properties assessed on local tax rolls may be municipal systems on taxable government-owned land (article XIII, section 11 of the California Constitution), private water companies (either regulated by the California Public Utilities Commission or unregulated), or mutual water associations.

Private Water Companies

Modoc County has four unregulated private water companies. We found them assessed properly. There are no regulated water companies in Modoc County.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its owners. If incorporated, those property owners served by the system hold shares of that company's stock. An incorporated mutual water company can enter into contracts, incur obligations, and own property. However, if unincorporated, it may perform those acts only in the names of all its members.

Mutual water company shares are typically appurtenant to the parcels that the company serves. In such cases, the assessed value of the parcels includes the value of the mutual water company assets. Modoc County has five mutual water associations.

In our prior survey, we recommended that the assessor develop procedures to eliminate the possibility of escape mutual water company assessments. Since our last survey, the assessor revised her procedure resulting in the discovery of one new mutual water company during 1999. The assessor now uses a standard questionnaire to determine whether the water association is incorporated, whether there is any indebtedness, or whether excess water is sold for a profit. In addition, the assessor utilizes Form BOE-540 S, *Mutual or Private Water Company Property Statement*, as a discovery tool for new construction. The assessor implemented our recommendation.

Mineral Property

Geothermal Properties

A Known Geothermal Resource Area (KGRA) is located in Modoc County. While there has been some mineral lease activity in the past, there has been little development. However, there are some agricultural and aquacultural applications of geothermal resources. Recently, there has been a renewed interest in the application of geothermal energy for food processing and electrical generation. Some leases have been signed and drilling activity has begun.

We found that the assessor correctly values the geothermal leases and closely monitors the drilling results for accurate reflections in assessable value. We have no recommendations concerning geothermal properties.

Mining Properties

The county has six sand and gravel operations and several hundred unpatented mining claims. The assessor gathers information about the sand and gravel properties through annual production reports and county use permits. The assessor has not determined the current market value of those properties each year, as required by rule 469. However, the properties have not had any

increases in reserves and have low value. Consequently, there has not been any impact on the assessed value of these properties and we have no recommendations regarding mining properties.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor is responsible for annually valuing 1,242 business property accounts, 25 aircraft, and 349 pleasure boats. The assessor and one auditor-appraiser are responsible for this workload.

The auditor-appraiser's duties include discovering taxable property, identifying potential audits, performing audits, and initiating roll changes. Additionally, the auditor-appraiser is responsible for commercial real property assessments in the City of Alturas.

Audit Program

The audit program is an important function of the business property assessment program. Property tax audits ensure that taxable property has been reported accurately by the taxpayer and assessed properly by the assessor. A property tax audit is a means of collecting data relevant to the determination of taxability, situs, and value of property. Based on the audit findings, the original assessment may be adjusted to reflect the audited values.

A comprehensive audit program is also essential to the successful administration of any tax program that depends on information supplied by assessees. A good audit program discourages deliberate underreporting and helps educate those property owners who unintentionally misreport.

Pursuant to section 469 and rule 192, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more for four consecutive lien dates. When audits are not completed timely, any assessment change beyond the four-year statute of limitations cannot be made unless the taxpayer has signed a waiver of the statute of limitations, as provided for by section 532.1.

Nonmandatory audits are not required by law, but they are authorized by section 470 and rule 192(e). Currently, the assessor conducts a limited number of audits on nonmandatory accounts each year. The number of nonmandatory audits performed depends on the available resources.

The following table details the assessor's audit program production over a five-year period:

FISCAL YEAR	NONMANDATORY AUDITS COMPLETED	MANDATORY AUDITS COMPLETED	TOTAL AUDITS COMPLETED	ABSOLUTE CHANGE (ESCAPES PLUS REFUNDS)
2001-02	16	2	18	\$2,125,119
2000-01	16	2	18	\$1,043,712
1999-00	5	5	10	\$178,164
1998-99	12	4	16	\$618,442
1997-98	14	4	18	\$538,665

We found that the assessor completed all mandatory audits; moreover, in all cases but one, the assessor obtained signed waivers of the statute of limitations when audits would not be completed on time. We have no recommendations for this program.

Business Property Statement Processing

Section 441 requires each person owning taxable personal property totaling \$100,000 or more to file a signed property statement annually with the assessor. Annual property statements form the backbone of the personal property assessment program. These statements cover a wide variety of property types, including businesses, agriculture, vessels, and aircraft.

We found that property statements had the appropriate signatures and the processing of the statements was accurate.

RECOMMENDATION 7: Accept only completed business property statements.

We found several business property statements where the assessee did not complete Part I of the business property statement. Part I requests the street address and telephone number of the business, the type of business, and the name of a contact person, as well as change of ownership information, the location of accounting records, and whether the business has any related entities within that county.

Section 445 requires a properly filed business property statement to include a description of all taxable property, in the detail required. The property statement consists of several sections and includes two schedules, Schedule A and Schedule B. Each part requests information necessary for a valid assessment. For example, if an assessee reports a change in ownership or control, it may affect the costs reported in Part II, or may indicate that a parcel of real property requires reappraisal.

We recommend that the assessor accept only completed business property statements. Incomplete business property statements, together with a letter detailing the deficiency, should be returned to the assessee for proper completion.

Valuation of Business Machinery and Equipment

Taxable values (or assessed values) of equipment are typically derived from historical costs through the use of valuation factors. The valuation factors are the product of price index factors and percent good factors. Accurate assessments of equipment depend on the proper choice and application of these factors.

The BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581) to help assessors in the valuation of business personal property and trade fixtures. The price index factors are used to convert original cost to reproduction cost new. The percent good factors are intended to reflect the average loss in value that commercial or industrial equipment suffers over time. The factors are based on averages and represent a reasonable estimate of annual changes for the majority of business machinery and equipment.

The assessor has adopted the price indices recommended by the California Assessors' Association (CAA). However, the assessor uses the percent good factors from the AH 581. We reviewed the assessor's tables of valuation factors and found no problems.

Leased Equipment

The auditor-appraiser is responsible for the discovery, valuation, and assessment of leased equipment. Common problems in assessing leased equipment include determining taxable situs, reporting errors by lessees and lessors, taxability, valuation (whether the cost of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments due to how the equipment is reported by the lessor and lessee. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

When property is leased, lessors should report such property on their annual property statements. At the end of such leases, the lessees may keep the equipment or return it to the lessors. A procedure should be in place to identify the disposition of leased equipment upon termination of a lease. When lessees obtain ownership of the equipment at the end of such leases, the assessor should check to ensure that lessees report that property. Crosschecking information reported by lessors and lessees verifies the accuracy of the reported information and prevents leased equipment from escaping assessment or being double assessed.

We found that the assessor has adequate procedures for tracking and crosschecking leased equipment.

Manufactured Homes

Manufactured homes should generally be classified as personal property. However, manufactured homes are treated differently than other personal property. Sections 5800 through 5842 govern how manufactured homes are valued and assessed. Unlike other personal property, manufactured homes are entered on the secured roll with an established base year value that is subject to compounding by an inflation factor each year. The taxes may be paid in two installments, and manufactured homes are subject to supplemental assessments upon a change in

ownership or new construction. The taxable value of a manufactured home is the lower of its factored base year value or its full cash value on the lien date.

The assessor has enrolled about 600 manufactured homes in Modoc County, with a total assessed value of \$15,173,042. While most units are located on private land in rural areas, some are located in seven manufactured home parks.

The assessor has written procedures that address the assessment of manufactured homes. The assessor collects data relating to changes in the ownership or changes in location of manufactured homes. Each appraiser is responsible for the appraisal of the manufactured homes located within their assigned work area.

New manufactured homes are usually valued at the dealer's reported selling price. The assessed value of a used manufactured home is typically established by using published value guides or BOE cost data.

We found that manufactured homes are properly assessed as personal property as provided by section 5801(b)(2). The assessor maintains an effective manufactured home assessment program.

Aircraft

Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data*. The BOE no longer publishes this handbook section. On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing aircraft. As stated in LTA No. 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market value for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments must be made in order to estimate a market value in the hands of the user.

The table below shows the number and the assessed value of the aircraft in Modoc County for the last five years:

YEAR	NUMBER	ASSESSED VALUE
2001-02	25	\$1,214,940
2000-01	27	\$1,219,920
1999-00	28	\$1,277,950
1998-99	35	\$1,605,010
1997-98	34	\$1,589,617

The assessor discovers assessable aircraft through airport manager hangar reports and Federal Aviation Administration reports. The assessor uses the appropriate aircraft cost guides to value aircraft and makes adjustments for the individual condition and equipment of each aircraft. We found that the assessor has an effective aircraft assessment program.

Vessels

Assessors in California are required to annually appraise vessels at current market value, although section 228 does provide for an exemption if a taxpayer owns only one noncommercial vessel with a market value of \$400 or less. The primary sources of discovery are the Department of Motor Vehicles (DMV) reports, referrals from other counties, and field canvassing. All vessels assessed in Modoc County are pleasure boats.

The table below shows the number and the assessed value of vessels for the last five years:

YEAR	NUMBER	ASSESSED VALUE
2001-02	349	\$862,525
2000-01	362	\$869,950
1999-00	350	\$891,575
1998-99	354	\$894,050
1997-98	351	\$847,995

RECOMMENDATION 8: Add sales tax as a component of market value when appraising vessels.

The assessor annually values vessels by referring to the *ABOS Marine Blue Book* and the *BUC Used Boat Guide*. As these boat guides have national application, they do not include California sales tax in the listed values. The assessor did not add a sales tax component to the price to arrive at the full value of the vessel.

Sales tax is a recognized component of market value and should be added to the values listed within the price guide when determining market value. Since sales tax has been excluded from the vessel appraisals, the assessed values of the vessels are understated by the amounts of the applicable sales tax.⁵

We recommend the assessor add a sales tax component when appraising vessels.

Animals

Modoc County has very few assessable animals. Assessable animals are reportable annually on Form BOE-571-F, *Agricultural Property Statement*. Other discovery methods include intercounty communications of transfers, newspaper articles and advertisements, telephone yellow pages, business directories, agricultural property statements, and audits of agricultural properties.

The assessor properly discovers, identifies, and appraises assessable animals.

⁵ *Xerox Corp. v. Orange County* (1977) 66 Cal.App.3d 746.

APPENDICES

A: County Property Tax Division Survey Group

Modoc County Assessment Practices Survey

Chief, County Property Tax Division:

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Property Auditor Appraiser

Survey Team:

James McCarthy

Senior Petroleum & Mining Engineer

Glenn Danley

Senior Specialist Property Appraiser

Zella Cunningham

Associate Property Appraiser

Ken King

Associate Property Appraiser

David Barbeiro

Associate Property Auditor Appraiser

Michael Shannon

Associate Property Auditor Appraiser

Delia Garcia

Tax Technician II

Marilyn Jones

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁶ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board of Equalization (BOE) in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The assessment sampling program is conducted by the BOE's County Property Tax Division (CPTD) on a five-year cycle for the ten largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.
2. These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁷
3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.
4. For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:
 - a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁶ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁷ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

- b) **Transferred properties.** Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.
 - d) **Non-Proposition 13 properties.** Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.
 - e) **Unsecured properties.** Those properties on the unsecured roll.
5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.
6. The field investigation objectives are somewhat different in each category, for example:
- a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

- b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?
 - c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?
 - d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?
 - e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?
7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.
8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C: Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.
- (b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.
- (c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code

75.60. Allocation for administration.

- (a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.
- (b) For purposes of this section:
 - (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
 - (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
 - (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations**Rule 370. Random selection of counties for representative sampling.**

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems .

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
 - (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
 - (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The Modoc County Assessor's response begins on the next page.

Section 15645 also allows the BOE to include in the report comments regarding the assessor's response. The BOE has no comments regarding the assessor's response.



County of Modoc

Office of Assessor

Courthouse
204 S. Court St., Rm 106
Alturas, CA 96101-4064
530/233-6218 Fax: 530/233-6237

Josephine Johnson
Assessor

February 18, 2003

RECEIVED

FEB 24 2003

**County Property Tax Division
State Board of Equalization**

Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
450 N Street, MIC:62
Sacramento, CA 95814

Dear Ms. Stuckey:

Pursuant to Section 15645 of the California Government Code, I am enclosing the Assessor's response to the State Board of Equalization Assessment Practices of Modoc County conducted in the early part of 2002, and request that this response be included as part of the survey report.

With our office being relatively small in space and the survey being conducted during a very busy time of year, it's not always easy to accommodate almost doubling in size. I want to extend my thanks to Arnold Fong, Carlos Zaragoza, and the entire survey team for working with us in a courteous, understanding, and professional manner to achieve minimal disruption in conducting this survey.

As always, I appreciate and welcome the periodic review of the operations of this office. With the small number of recommendations in this survey, it is reflective of our competent and dedicated staff, and I again acknowledge and commend their efforts.

Sincerely,

JOSEPHINE JOHNSON
Assessor, Modoc County

Encl.



MODOC COUNTY

Response - State Board of Equalization Assessment Practices Survey

February 18, 2003

RECOMMENDATION 1: Assess all business property unless statutorily exempt

We have implemented this recommendation.

RECOMMENDATION 2: Annually enroll the lower of the factored base year value or the current market value of real property as required by 51(a).

We concur with this recommendation; however, we have approx. 7,000 parcels still in a decline in value status, most of which are vacant lots within the California Pines subdivision. We closely monitor the active market in this area and have recognized value increases when warranted. In other areas where decline in value has been recognized, those properties are reviewed usually on a 2-3 year basis and that review is also market activity driven.

RECOMMENDATION 3: Send annual questionnaires to owners of TPZ-zoned land, requesting information on compatible, non-exclusive uses.

We have applied \$1 compatible use to all TPZ parcels - noting that these parcels are not fenced and actual acres being utilized are questionable - the \$1 per acre compatible use compensating for this fact. However, as staffing and time permits, we will endeavor to do a complete study on the rents on TPZ properties.

RECOMMENDATION 4: Review all private uses of fairground property for possible taxable possessory interests.

We are, and have been, monitoring private uses at the fairground property to determine if the uses continue, and if they meet the requirements of a taxable possessory interest.

RECOMMENDATION 5: Revalue taxable possessory interests at the end of the anticipated terms of possession, as required by Section 61.

We concur and will review our procedures regarding this recommendation.

RECOMMENDATION 6: Issue supplemental assessments for changes in ownership of taxable possessory interests.

We have taken steps to implement this recommendation.

RECOMMENDATION 7: Accept only completed business property statements

We are very cognizant of business property statements needing to be complete when filed. However, we will review our procedures regarding this recommendation.

RECOMMENDATION 8: Add sales tax as a component of market value when appraising vessels.

We have taken steps to implement this recommendation.